Whakapaetanga Tūraru Hiranga Pae Tawhiti

Long Term Plan significant forecasting assumptions and risks

CONTENTS

Introduction

The assumptions made by Council in preparing this Long Term Plan are an important part of setting strategic direction, policy, and financial forecasts. The assumptions include the number of people and properties requiring Council services, the cost of borrowing to fund infrastructure, cost increases for a range of materials and services and other major factors outside of Council control such as climate change and government legislation.

The Council is required to identify the significant forecasting assumptions and risks underlying the forecast financial estimates. Where there is a high level of uncertainty, Council is required to state the reason for that level of uncertainty and provide an estimate of the potential impacts on the financial assumptions.

The Council has made a number of assumptions in preparing this 10 year Long Term Plan. The issues or risks chosen for the assumptions are those that will impact on cost and the levels of service delivered by Council. These have been identified from:

- 2023 Census results and Statistics New Zealand estimated population,
- Growth trends and development activity to date,
- Remaining Covid19 impacts, and the Cyclone Gabrielle Recovery Plan,
- Technology and societal trends,
- Previous Long Term Plan processes, and
- Assessing the context, trends, and legislative programme of the new coalition government for the current parliament term.

Risks and uncertainty are based on the past trends and volatility of each issue, whether the issue can be seen to be impacting already, the weight of expert opinion on the future likelihood of occurrence and the estimated scale of impacts. Council takes a conservative approach so as not to overreact to short term trends. The pace of change is increasing, resulting in many possible futures and choices for the community.

Using the focus areas of the District Strategy as a basis, the Long Term Plan aims for resilience in infrastructure and finances in order to meet the challenges of rapid change in the future. This approach is important as the District faces impacts from climate change, government policy changes and reforms, and a significant upturn in the demand for housing and in housing development. These events are outside of Council direct control, but our response to them are the choices set out in this Long Term Plan.

The key risk mitigation themes identified in the assumptions for delivery in this Long Term Plan are:

- The Growth Strategy and District Plan review for sustainable growth, climate change, and natural hazard mitigation.
- Managing Council's finances in a prudent and sustainable way, as set out in the Financial Strategy, will allow Council to manage unexpected costs. Maintaining borrowing headroom and adequate depreciation reserves are key factors.
- Having an insurance strategy that ensures Council is adequately insured.
- Many risks require Council to coordinate with others and so maintaining strong relationships with iwi partners, Waka Kotahi, Horizons Regional Council, central government, and other agencies is a key mitigation.
- The actual delivery on key aspects of this Long Term Plan to build resilience including increasing understanding of assets and key capital projects. Critical to this are the Asset and Activity Management Plans which need to be "living" documents and the improvements plans within these documents progressively worked on.
- Ensuring robust annual plan and long-term plan processes that will address unexpected internal and external changes.

The assumptions ensure that all estimates and forecasts are made on the same basis across all Council activities. The assumptions underlying the prospective financial information are as at February 2024 and will be revisited in May 2024. These assumptions apply for the ten-year period of the Plan, while also forming the basis for the assumptions made in the 30 year Infrastructure Strategy.

Note: The uncertainty and financial impact ratings are based on Council's Risk Management Framework

Population Growth

Forecasting Assumption

Tararua population is projected to grow to 20,357 (+ 1,096) by 2034.

Description

Population growth for the 10 years to 2034:

Total population 20,357 (+5.7% or 1,096 residents)

Total households 8,520 (+7.5% or 594 households) Additional households will be split 70% urban and 30% rural.

The forecasts are based on Informetrics data and factor in historic growth forecasts and the anticipated positive impact of the Te Ahu a Tūranga Highway. The assumptions are similar to growth forecast in the 2021 Long Term Plan.

Risk

The risk is that population or household growth are significantly different than forecast, and decisions made in the Long Term Plan anticipating forecast growth are not correct. The location of population or commercial growth could also be significantly different to that forecast.

Migration driven by international factors, government policy, economic conditions, climate change, or natural disasters may impact on growth predictions. Changes to household occupancy or birth and death rates may also impact predicted growth.

Significantly higher population growth or density may occur in an unsustainable way. It may make it difficult for Council to maintain the quality of community facilities and infrastructure, and to ensure they meet the needs of future generations. The impact of growth on water infrastructure capacity is covered in the Infrastructure Capacity assumption.

A significant decrease in population may mean a smaller ratepayer base will be expected to meet increasing costs or face reduced the levels of service to keep rates at an affordable level.

Likelihood of Risk Occurrence

Possible

Financial Impact

High – Very High

Providing quality facilities and infrastructure in the face of unexpected growth comes at a higher cost. Council and the community would need to decide to either meet the increased cost or lower the level of some services (many Council services must meet minimum mandatory requirements such as drinking water standards).

Lower than expected growth may mean Council has spent on infrastructure and services that are not required.

Risk Mitigation Factors

The District Strategy, and the Growth Strategy and District Plan review are tools Council will use to ensure growth is sustainable and will consider Council's capacity to provide resilient and reliable water, wastewater, and stormwater. The Infrastructure Capacity assumption has more detail about managing infrastructure for growth.

The Financial Strategy outlines how Council manages its finances in a sustainable way that provide sufficient capacity to meet unanticipated changes to population.

Council continues to improve the understanding of its infrastructure. It has increased depreciation funding for three waters and transport to enable higher levels of renewals that will support growth.

In the medium to long term, some costs from unexpected growth would be offset by an increase in ratable properties and rates income.

Council is a member of the rural sector group of Local Government New Zealand (LGNZ) and proactively lobbies government on issues that impact population growth.

Ageing Population

Forecasting Assumption

The number of older residents in the district will increase from an estimated 21% at June 2023 to a forecast 26% by 2034.

Description

The number of older residents in the district will increase significantly over the long term leading to changes in the way Council delivers services. The number of residents aged over sixty-five increased by 17.3% (583 people) from June 2018 to June 2023. Older people at June 2023 made up 20.6% of the estimated resident population (up from 19% in the March 2018 census). Council forecasts this to increase to 26.2% of the population in 2034.

This is an increase of 1,231 people aged over sixty-five to 5,333 residents for the 10 years, against a total population forecast increase of 1,096 residents to 20,357.

Risk

The risk is that the population will age significantly faster or slower than forecast.

Migration driven by international factors, government policy, economic conditions, climate change, or natural disasters may impact on ageing population predictions. Changes to household occupancy or birth and death rates may also impact predictions.

A faster ageing population may leave Council services not sufficiently meeting older people's needs. Rates affordability has a greater impact on ratepayers with fixed incomes and presents a challenge for Council to fund forecast levels of service.

Likelihood of Risk Occurrence

Probable

Financial Impact

Low

Risk Mitigation Factors

Council manages changes in demand for services through its regular long term and annual planning processes and will account for demographic change.

This Long Term Plan considers changes in demand for services for example by placing a greater emphasis on recreational activities and upgrading of reserve amenities through the 2023 Play, Active Recreation and Sport Strategy, and the development of Reserve Management Plans.

The District Strategy, and the Growth Strategy and District Plan review are tools Council consider demographic change and may also include findings about older residents from the 2023 Housing Strategy.

Natural Disasters

Forecasting Assumption

There will be no extreme natural disasters during the period of this plan.

Description

There will not be any natural disasters that significantly impact the District. Any events will have less impact than those experienced in the 2004 Manawatū-Whanganui flood, Cyclone Gabrielle, or the Kaikoura earthquake.

Council will be prepared to respond to any flood, storm, earthquake, and volcanic activity that occurs.

Council will secure insurance cover as required and government will provide response and recovery support at a similar level to past events.

Risk

New Zealand is seeing an increasing frequency of natural disasters, and the risk is that the District is impacted by a significant event that severely damages infrastructure and disrupts services.

Council may not be adequately prepared or resourced to respond to a significant disaster or series of disasters and may not be able to secure affordable insurance.

Government may reduce its financial support including for the replacement of damaged infrastructure and roading, and for the managed retreat of private properties.

Likelihood of Risk Occurrence

Possible

Financial Impact

High – Very High

A significant natural disaster requires immediate funding for the response and recovery including the repair of infrastructure and the potential buy out of private properties for managed retreat.

For example, a severe earthquake on the Hikurangi Subduction Zone that caused the destruction of ten percent of Council assets could cost more than $100 million to repair. Council staff and resources would likely be overwhelmed in the initial response and recovery. The event would disrupt the Tararua economy and interrupt critical Council services such as water and roads for a considerable period.

Council would need to borrow to support the response and recovery, potentially severely impacting its financial capacity to respond to future unforeseen events and requiring rates increases.

Risk Mitigation Factors

Council plans for civil defence emergencies and coordinates with iwi and other local and regional organisations. Council will continue to improve its business continuity arrangements, including the development of a corporate business continuity plan, during this Long Term Plan.

Council assets are insured, and government continues to provide support to Councils to reinstate underground assets and roads in a civil defence emergency.

Council maintains the Tararua Emergency Roading special funded reserve to provide funds for the reestablishment of infrastructure following a disaster and maintains depreciation reserves that could be utilised to assist with shortfalls from insurance and government support.

The Growth Strategy and District Plan review will consider hazard avoidance and additional conditions for areas with high natural hazard risk.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet the costs of sudden unexpected events such as natural disasters.

Climate Change

Forecasting Assumption

Climate change will occur in line with government forecasts.

Description

The 2020 National Climate Change Risk Assessment and the 2021 Manawatū-Whanganui Regional Climate Risk Assessment form the basis of Council's climate change forecasts. The forecasts are through to 2040 and 2090 and project an increase in events that bring heavy rain, strong winds, and longer dry periods, as well as sea level rise.

"Climate change is one of humanity's greatest challenges. The impacts of climate change are already being felt within the communities, businesses, native ecosystems, and infrastructure within the region. Climate change, and its associated impacts will have significant social, economic, environmental, and cultural implications for the region's communities." 2021 Manawatū-Whanganui Regional Climate Risk Assessment

There remains a high level of uncertainty in forecasting climate change especially at a local level and the science continues to rapidly develop. Council overlays the long-term changes with an expectation there will be short-term climatic variations where change will occur with more intensity and variability, potentially in a non-linear way i.e. in step changes.

Risk

The risk is that climate change will not occur as predicted and change may be more rapid and have a higher impact with more frequent storm and flood damage, greater fire risk, storm surge, and erosion.

Increasing climate related events may require emergency work that cannot be funded from normal budget provisions.

Climate change will impact the global economy and drive social change (see the Population Growth assumption for migration risks) and will likely result in supply chain constraints and reduced access to affordable insurance.

Council may be faced with unexpected pressure on infrastructure that requires additional investment to build resilience for roads and drainage, stormwater control and drinking water supply and storage. There is a risk that Council infrastructure decision making will not adequately account for climate impacts and that will contribute to worsening environmental and community resilience.

Likelihood of Risk Occurrence

Probable

Financial Impact

High

Over time the District economy will be challenged by increasing severe weather events such as storm and drought, and by changes to normal seasonal cycles, pests, and diseases.

Significant impacts are expected to increase in the next few years to decades. The cost of damage associated with extreme weather is likely to rise as the frequency and intensity of events increase.

The global effect of climate change may make New Zealand an attractive place to immigrate, and the resulting overflow from cities into Tararua, increasing demand for Council services and housing (also refer the Population Growth assumption).

Council faces funding pressure to build infrastructure that is climate resilient over the life of the asset, is safe, and meets community needs. Climate change risk is expected to impact to the way Council allocate resources and the type of proactive projects undertaken. For example:

Transport – More intense and frequent rainfall causes landslides and soil erosion resulting in damage to roads. Improved drainage is required to reduce long-term maintenance costs.

Drinking water - Longer dry periods increase demand at a time when the amount of water available from rivers is reduced. Intense rainfall creates high turbidity and makes treatment more difficult. Infrastructure that is more resilient to long dry periods and high intensity rainfall will be required to ensure reliable water supplies.

Wastewater - More intense and frequent rainfall means more wastewater to treat due to infiltration from stormwater. Managing methane emissions from wastewater treatment may require new investment.

Stormwater - More intense and frequent rainfall may overwhelm stormwater systems. Investment in increasing capacity and coverage is required to ensure stormwater systems are safe and resilient.

The expectation to reduce carbon footprint and move to a more sustainable use of resources are increasing, as are the costs to do so.

Risk Mitigation Factors

The Long Term Plan incorporates climate resilience into budgets and projects. For example, preventing infiltration of stormwater into wastewater, stormwater model development, higher capacity road culverts, new water storage, investigation of new water sources, water demand management and leak detection, and generally improved maintenance programmes.

Council is a member of the Manawatū-Whanganui Climate Action Joint Committee which has completed a Regional Climate Change Risk Assessment and Joint Climate Action Plan.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet the costs of sudden unexpected events such as natural disasters.

Council is developing its insurance strategy with further consideration given to climate risk.

Council is considering climate change impacts in its Growth Strategy and District Plan review.

Council processes requests for electric vehicle related electricity infrastructure and increasing renewable energy related consents, both wind and solar.

Legislating and One Plan Changes

Forecasting Assumption

Legislative changes will have a modest but ongoing impact on Council finances and levels of service.

Description

Legislative changes will have a modest but continuing impact on Council's finances and levels of service.

Existing governance arrangements will continue and there will be no changes to District boundaries. Existing shared services and collaboration with other Councils will continue, and some additional collaboration is likely.

Specifically, the following legislative assumptions are made:

- Council will continue to deliver infrastructure within the existing legislative framework.
- There will be additional cost to meet more stringent monitoring and resource consent requirements for water and wastewater in year one and two.
- Urban stormwater discharges will not require resource consents.
- Legislated minimum levels of service or minimum standards (such as roads and community buildings) will not be changed.
- Earthquake prone building assessments will not require expenditure outside already budgeted costs.

The Horizons Regional Council One Plan will have some impact on farm profitability, particularly dairy farms, although freshwater regulations are being reviewed by the new government with a stated intent to reduce compliance costs. Overall, there is likely to be reduced profitability on some farm types and locations as consent requirements result in restrictions on stocking rates. Farmers may see higher costs to comply with freshwater regulations.

Risk

The risk is that legislative change could increase the levels of service or number of activities Council is required to deliver.

The new government has signalled reviews that may impact Council including transport, resource management, water, wastewater, and stormwater. The reviews could change how these services are delivered including through a regional service delivery model.

Although the government has stated that forced Council amalgamations will not occur, there is a risk that this may change if reforms leave Council with reduced activities.

The review of the Horizons Regional Council One Plan and compliance with government freshwater regulations could result in some forms of intensive farming becoming unprofitable in Tararua, and a lead to a general reduction in farming income. This would have a major impact on the local economy, and landowners' ability to pay rates over time. This is now considered less likely as the new government has signalled a review of freshwater regulations with the intent to reduce compliance costs.

Likelihood of Risk Occurrence

Probable

Financial Impact

Medium

The financial impact of 3waters reform is covered in the 3Waters Reform and Subsidies for Water and Wastewater Upgrades assumption.

A Council amalgamation process would result in resources being diverted to the restructure and could significantly interfere with the planned work programme.

Commercial buildings classified as earthquake prone may impact on the ongoing viability of their associated businesses. Council buildings classified as earthquake prone, or yet to have seismic assessments, may require substantial remedial work.

There is uncertainty about potential changes to resource management legislation and this could have a positive or negative financial impact for Council. There will potentially be a positive financial impact on resource consent requirements if freshwater standards are relaxed while allowing to continue to work towards environmental protection objectives.

Reduced farming profitability will impact on rates affordability and become a significant governance issue. Council would be under pressure to limit rates increases for rural properties and levels of service might be reduced.

Risk Mitigation Factors

Council makes submissions on relevant national and regional legislative and policy change, promoting the Tararua District and its aspirations. It considers how it will respond to change as part of regular planning processes.

Council has effective partnerships with iwi, and works closely with neighbouring councils, and Horizons Regional Council at the governance and officer level. The relationship with iwi and Horizons is particularly important for working closely together to meet the requirements of the One Plan.

Infrastructure Capability

Forecasting Assumption

Forecast growth can be partly met by the current and planned capacity of infrastructure assets.

Description

Forecast population, household, and commercial growth is partly catered for by the current and planned capacity of infrastructure assets.

In the longer term the Council controlled business unit established under the government Local Water Done Well process will need to make the required upgrades to ensure the forecast growth is done in a sustainable way. This includes additional investment in extensions and improvements to existing drinking water, wastewater, and stormwater networks to enable development in existing undeveloped residential zoned land, and significant upgrades to support intensification of existing urban areas.

To ensure sustainable growth the Growth Strategy and District Plan review will consider rezoning some urban land unsuitable for development due to infrastructure constraints.

There is considerable capacity in roads, footpaths, libraries, and most community buildings however significant renewals are required to bring community facilities to modern acceptable standards that meet the strategic objective that our towns have outstanding facilities for all to enjoy.

Risk

With existing and planned infrastructure partly meeting planned growth, the risk is that household or commercial growth significantly above forecast, coupled with climate change impacts, will put pressure on 3waters infrastructure (also refer to the Climate Change and Population Growth assumptions).

While there is generally considerable existing land capacity in urban zones, some areas are constrained by infrastructure capacity.

Council continues to improve its knowledge of 3waters networks however gaps in the data could result in unexpected infrastructure challenges.

Maintaining quality fit for future infrastructure and ensuring capacity for forecast growth will require significant 3waters investment by a new business unit owned by Council (or partly owned in collaboration with other Councils). The business unit may mean less local control or focus and may have funding constraints that fall short of the required level of investment.

Likelihood of Risk Occurrence

Probable

Financial Impact

High

Maintaining quality fit for future infrastructure and ensuring capacity and network reach for forecast growth will require Council to fund significant 3waters investment.

Higher growth puts greater demand on community facilities and would require Council to invest in upgrades (particularly library and recreation activities) to ensure our towns have outstanding facilities.

Risk Mitigation Factors

In this Long Term Plan Council will continue to improve its knowledge of 3waters networks and the specific locations that require renewals and upgrades.

The Growth Strategy and District Plan review will seek to align with infrastructure capacity to ensure sustainable growth.

Renewals are funded from depreciation reserves and in this Long Term Plan Council will increase reserves to provide improved renewal and maintenance programmes with a focus on infiltration and leak detection.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet unexpected infrastructure capacity requirements.

Other factors that will have a positive influence include that higher property density generates higher rates revenue, introduction of development contributions during this long term plan, and Council is improving its demand management practices.

Waka Kotahi Funding

Forecasting Assumption

Waka Kotahi requirements for the performance of subsidised work will not alter to the extent they adversely impact operating costs.

Description

Waka Kotahi requirements and specifications for the performance of subsidised work will not alter to the extent they adversely impact operating costs. The current subsidy level of 73% (2024-27 for maintenance and renewal costs within the approved NZTA Roading Programme) will continue for the period of the period of the Long Term Plan.

The One Network Road Framework will continue to support Councils current level of service for transport. The 73% FAR will apply to the current eligible road and footpath maintenance budget.

Note – the FAR will be reviewed within the existing New Zealand wide formula during 2026/27 and will apply for the 2027 – 2030 National Land Transport Programme (NLTP) that will allocate funding to Council.

Risk

The risk is that the level of subsidy could change as part of annual updates and medium-term revisions.

There is pressure on the Land Transport Fund across New Zealand Across New Zealand because transport projects are facing higher costs, government decisions to limit fuel tax increases, and vehicles are more fuel efficient. The risk is currently weighted toward reductions in inflation adjusted overall funding available through Waka Kotahi at the FAR.

Waka Kotahi completed a major review of the FAR in 2014 so it is unlikely there will be a major review again in next 10 years. However, the overall level of funding may be reduced due to Waka Kotahi funding shortfalls.

There is a risk the criteria for inclusion in the subsidised works programme could change. This may reduce or increase the roading programme eligible for subsidy (the FAR may be applied to a reduced approved roading programme budget). New emergency works criteria may reduce the level of subsidy to repair flood damages depending on the size of the event.

Likelihood of Risk Occurrence

Probable

Financial Impact

High

Variations in the Waka Kotahi subsidy rate will increase or decrease Council's revenue by $92,000 for every 1% change in subsidy. Council could increase rates to continue the planned maintenance programme or reduce the level of service provided that may impact on the strategic objective to have resilient and reliable infrastructure that connects our communities.

Risk Mitigation Factors

Council manages changes in transport levels of service through its regular long term and annual planning processes and this will account for Waka Kotahi funding changes. Council has the option to undertake projects outside the Waka Kotahi approved 2024-27 work programme with costs met by rates or depreciation.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet unexpected transport infrastructure costs.

The Tararua Alliance aims to fully meet process requirements to comply with the ONRC system, and working with Waka Kotahi as funding partner, will ensure early identification of any major issues with funding for the roading programme. Council engages with regional transport partners through the Regional Land Transport Committee.

Inflation

Forecasting Assumption

The Long Term Plan is adjusted for inflation using the Local Government Cost Index (Appendix One).

Description

The Long Term Plan financial projections reflect the estimated impact of inflation. Council used the Local Government Cost Index (LGCI) forecasts of price level changes to calculate a weighted average inflation rate for each year of the Plan. The forecasts are prepared by BERL, and Appendix one contains the BERL inflation adjusters (commissioned by Taituarā). The forecasts were issued in October 2023.

Economic forecasts are now projecting that cost increases will ease (but not reduce) and become more stable at around 2 – 2.5% a year in the medium to longer term.

Risk

The risk is that actual inflation will be significantly different to that forecast.

Council is exposed to cost increases related to international oil prices (for example, pipes, bitumen, and fuel), and staff and other operating costs driven by domestic economic trends. Council has no control on these prices, and these are often volatile due to shifts in government policy, exchange rates, and international oil prices.

In the last 10 years the LGCI forecasts were usually above the Consumer Price Index and this builds in some buffer for any price increases. However, the reverse can occur as New Zealand is subject to imported inflation with limited options to avoid sudden price increases caused by overseas trends or a major devaluation of the New Zealand Dollar.

Likelihood of Risk Occurrence

Possible

Financial Impact

Medium

Significantly higher or lower inflation will lead to misstatement in some costs in the budgeted financial statements. Council is particularly susceptible to changes in the price of imported plastics, capital equipment, petrol, and diesel as about fifty percent of Council business is roading related.

Risk Mitigation Factors

While individual indices will at times vary from the Long Term Plan, over the longer term this will tend to average out.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet unexpected cost increases.

Council manages unexpected high inflation through its regular long term and annual planning processes by adjusting spending and reviewing the capital works programme.

Asset Lives

Forecasting Assumption

The actual useful lives of Council assets are in line with predictions.

Description

The actual useful lives of assets reflect those recorded in asset registers and these are based on evidence from condition assessments or professional advice.

Refer to the Accounting Policies section for Depreciation Rates, and to the Infrastructure Strategy for the cost of renewal and operating costs for 3waters and transport.

Risk

The risk is that assets wear out earlier or later than predicted.

Likelihood of Risk Occurrence

Possible

Financial Impact

Medium

The financial effect of the uncertainty is likely to be immaterial unless asset lives for significant assets such as bridges or pipe networks change significantly. Depreciation and interest costs would increase or decrease if capital expenditure were required earlier or later than anticipated.

Risk Mitigation Factors

In this Long Term Plan Council will continue to improve its knowledge of assets and includes budgets for additional infrastructure and community facilities condition assessments.

The impact of increased depreciation or interest costs through early asset expiry can be mitigated through regular long term and annual planning processes by reprioritising capital projects or by utilising internal borrowing.

Revaluation of Property, Plant and Equipment

Forecasting Assumption

Assets will be regularly revalued to reflect their fair value price.

Description

Assets are valued as stated in the Accounting Policies section.

The following assumptions apply to asset revaluations:

- building and 3waters revaluations will reflect price changes predicted by BERL.
- transport revaluations will be based on actual unit rates from Council's the Tararua Alliance contract.
- the depreciation impact of inflation will be in the year following revaluation.
- the value of non-depreciable assets (for example land) is forecast to remain constant.
- technology improvements will deliver improvements but will not materially change the unit price.

Risk

The risk is that BERL forecasts will be materially incorrect, leading to misstatements in Council's financial accounts. This will have an impact where forecast asset values result in changes to depreciation and hence rates levied.

There is a risk that the Tararua Alliance based unit prices do not reflect fair asset values.

Likelihood of Occurrence

Unlikely

Financial Impact

High

An incorrect increase fair value prices will increase depreciation and affect funding levels.

Valuation changes that result in a 1% change in total depreciation would increase rates requirement by estimated $192,000 a year.

Risk Mitigation Factors

The fair value price of assets is reviewed every year through the annual and long term planning process.

Contracts

Forecasting Assumption

Contracts prices will increase in line with inflation forecasts.

Description

The renewal price of operational, maintenance, and service contracts will increase in line with inflation forecasts and there will be no other significant variation in price.

Risk

The risk is that there is a significant unbudgeted variation in cost or change in terms when retendering contracts and service agreements.

Causes for this include inflation significantly higher than forecast, lack of competition, national and international supply chain shortages.

Likelihood of Risk Occurrence

Possible

Financial Impact

Low

As Council has many contracts across different activities and markets, in most cases, overall changes to contract costs and terms even out.

Risk Mitigation Factors

Council monitors the economic environment, regularly reviews contract and level of service requirements through the long term and annual plan processes and is usually able to build inflation indexing into contract pricing.

Sources of Funds for the Replacement of Significant Assets

Forecasting Assumption

Council will have adequate resources to replace significant assets when due.

Description

The Revenue and Finance Policy, Financial Strategy, and Infrastructure Strategy set out how Council will fund the replacement of significant assets from depreciation and borrowing through to 2054.

Risk

The risk is that there will be a shortfall in depreciation funds to replace assets if they require replacing earlier than forecast, or if Council has not funded sufficient depreciation over the longer term.

Likelihood of Risk Occurrence

Highly Probable

Financial Impact

Medium

The impact of the uncertainty on rating levels is likely to be immaterial in the short term as the depreciation funds have an overall positive balance (2023/24 opening balance $31 million). Balance forecasted to be $17 million at the end of the 10 year period (June 2034). This reflects that significant renewals are forecast in the 10 year period.

The assumptions on Inflation, Asset Lives, and Revaluation of Property, Plant and Equipment will have an impact on depreciation funding levels over the medium to long term.

Risk Mitigation Factors

Council has built its depreciation reserves over time to fund the long-term renewals of assets.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet unexpected costs such as the early replacement of significant assets.

3 Waters Reform and Subsidies for Water and Wastewater Upgrades

Forecasting Assumption

Water, wastewater, and stormwater activities will remain with Council and there will not be further government subsidies for upgrades.

Description

Water, wastewater, and stormwater activities will remain in Council ownership.

Government will not fund any further health or environment improvements for water and wastewater networks. However, a promised government review of freshwater regulations could reduce mandated service levels and standards for Council.

The government expects new legislation for 3waters to be in place by October 2025, and this will give Council some options around setting up a business unit, either standalone or as a collaborative entity with other councils. Council will still be required to meet increased mandatory standards for water and wastewater, renew significant assets, and renew wastewater discharge consents.

Risk

The risk is that Council is not able to sustainably fund resilient and reliable infrastructure when faced with changes in legislative standards, growth, and climate change. Asset renewals and resource consents currently require substantial investment to meet consents conditions.

New government legislation mandate requirements for higher service levels.

There is an opportunity if grant funding is available as any variation to this assumption will be financially positive to Council.

There are transition risks associated with moving to a new 3waters delivery business unit that will be clearer once government legislation is announced.

Likelihood of Risk Occurrence

Highly Probable

Financial Impact

High – Very High

The 3waters reform will leave Council with higher debt and ratepayers with targeted rates.

Any further government subsidies will reduce the rate requirements and debt levels.

Risk Mitigation Factors

Council is able to review levels of service and community expectations through its regular long term and annual planning, and community consultation processes, although many 3waters service levels are mandatory.

Council will continue to lobby government on the need for government investment in 3waters.

Council will actively explore regional collaboration for 3waters management and service delivery.

Council has the option to delay some major investments until the new legislation framework and standards have been set.

The Growth Strategy and District Plan review will seek to align with infrastructure capacity to ensure sustainable growth.

Wind and Solar Farm Developments

Forecasting Assumption

Wind and solar farm developments will not significantly impact roading renewals expenditure.

Risk

The risk is that wind and solar farm development activity significantly impact on roads and require increased roading renewals, upgrades, or timing changes.

Likelihood of Occurrence

Highly Probable

Financial Impact

Low

The resource consents for solar and wind farm developments are expected to fully cover the full cost of the development.

Risk Mitigation Factors

Council participation in the resource consent application process will ensure development conditions mitigate adverse impacts on existing infrastructure and the environment.

Council will also consider bringing forward some renewals to take advantage of any upgrades required for wind or solar farm developments.

The District Plan review will consider resource management rules for wind and solar farms.

Forest Harvesting

Forecasting Assumption

The forest harvesting impacts on roads are correctly forecast in transport budgets.

Description

Forest harvesting the Northeast of the District are creating issues with maintaining roading levels of service and impacting on maintenance requirements, and these impacts have been correctly forecast in transport budgets.

Many new plantings of exotic forest are for carbon forestry and will not be harvested.

Risk

Significant increases in forestry harvesting volumes are certain in the medium term, and more exotic forestry is currently being planted and the risk is this will cause major damage to some arterial roads.

Likelihood of Risk Occurrence

Highly Probable

Financial Impact

Medium

Forest harvesting activities will cause damage to some arterial roads resulting in higher renewals and increasing operational costs.

The impact is reduced when new plantings are for carbon forestry that will not be harvested.

Risk Mitigation Factors

The Tararua Alliance works with the main forest owners to identify likely volumes and routes and plans for targeted road capability upgrades to maintain levels of service, while basic renewals are programmed after harvest traffic when possible.

The Route 52 upgrade will lower ongoing maintenance costs as it is designed to cater for forestry truck volumes.

Council plans to introduce a heavy vehicle component to its roading rates to ensure everyone who uses the road, especially those benefiting from heavy vehicle use, pays their fair share.

Council has increased depreciation funding for transport to enable higher levels of renewals.

The government has reviewed the policy settings for production and carbon exotic forestry (NES-CF) and the land use regulatory framework for forestry. Council can now require resource consents for land use change to forestry in certain locations.

Resource Consent Renewals

Forecasting Assumption

All existing and renewing resource consent requirements will be met from forecast budgets.

Description

The cost of complying with the conditions of current resource consents will not alter significantly from that budgeted.

The cost of resource consents due for renewal during the 10-year period will be renewed as budgeted.

Resource consents issued for new or upgraded infrastructure will not contain significantly different conditions or standards to those anticipated in the project.

Risk

Conditions for new or existing resource consents are altered significantly requiring major unbudgeted investment to meet conditions.

The term of renewed resource consents could be reduced to 10 years or less requiring additional budget for renewal.

Council may be unable to renew expiring wastewater resource consents requiring consideration of alternative systems such as piping wastewater to another treatment plant, or more expensive land-based disposal systems. The major project risk is the Dannevirke wastewater discharge consent that expires in 2027.

The new government has signalled that it will review current resource management legislation and replacement legislation could change the resource consent processes and increase costs.

Likelihood of Risk Occurrence

Unlikely

Financial Impact

Medium – High

The financial effect of changes to resource consent requirements depends on the extent of the change. A significant change in requirements could result in the Council needing to spend additional funds to enable compliance. If there were changes to conditions or consents were not renewed or issued, Council would face additional costs to meet consents or to continue a process to apply for new consents. Council can fund additional consent requirements however there would be an opportunity cost of not undertaking other infrastructure works or services. Affordability of services in small communities could become increasingly difficult.

Based on recent resource consent renewal outcomes for wastewater treatment and discharge in Tararua and neighbouring districts the risks are increasing, and potential costs are high. Council is likely to be required to increase levels of service for all wastewater treatment plants as consents expire.

Risk Mitigation Factors

Council has effective partnerships with iwi, and works closely with Horizons Regional Council, on resource consents and monitoring. Working with Horizons ensures Council has sufficient notice of and is well placed to manage any change required. Council works closely with iwi and Horizons to ensure that infrastructure and services are developed with environmental protection as a key consideration.

The government has in the past recognised the financial impacts on smaller communities and contestable funding has been available for water and wastewater upgrades. Council will continue to lobby for more funding and will actively apply for funding where available.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet unexpected costs that could arise from resource consent requirements.

Interest Rates

Forecasting Assumption and Description

Council has budgeted for this long-term plan that interest on loans raised will be x% in year one and reducing to y% by 2034. The average is 5.08% over 10 years. It is assumed that return on investments made by Council will be a% in year 1 rising to b% by 2034. The average is c% over 10 years.

Risk

The risk is that actual interest rates will be significantly different to forecast.

Likelihood of Risk Occurrence

Probable

Financial Impacts

High

Based on Council projected borrowing levels, interest costs will vary between $845,000 and $1,493,000 per annum for every 1% movement in interest rates.

Risk Mitigation Factors

Interest rates are largely driven by factors external to the New Zealand economy. Council is predicting an increase in borrowings over the 10-year period. Council has in place an interest rate strategy to deliver greater certainty over the interest rate cost for the duration of the Long Term Plan.

Council is currently within the borrowing covenant levels specified by the Local Government Funding Agency.

Council receives external professional advice on the direction of future interest rates.

Access to External Funding

Forecasting Assumption

Council will be able to borrow to the required level.

Description

Council will be able to borrow at the required level.

Council has received significant funding from government sources, especially post Cyclone Gabrielle, to repair damaged assets and to improve levels of service. This level of grant funding is expected to reduce.

Risk

If unable to borrow, Council will not be able to fund services or capital investment. While it is likely Council will be able to secure loans, it cannot be guaranteed.

Likelihood of Risk Occurrence

Unlikely

Financial Impacts

High

If rates are used as an alternative source of funding for capital projects, rates requirements would rise and forecast levels of service would come under review.

Risk Mitigation Factors

Council has access to the New Zealand Local Government Funding Agency markets in New Zealand and overseas. It has a strong relationship with its bankers with a history of meeting loan covenants.

The Financial Strategy outlines how Council manages its finances in a sustainable way that has capacity to meet unexpected costs from borrowing or alternative sources if required.

Capital Projects Do-ability

Forecasting Assumption

Council will deliver on its capital projects programme.

Description

Council will deliver on its capital projects programme as outlined in the Long Term Plan.

Risk

The risk is that Council is unable to deliver the work programme as outlined, especially for 3Waters and Cyclone Gabrielle Recovery projects for Roading. This creates a backload of work and increased costs, resulting in continued delays to the delivery of the planned capital programme. This could impact on the achievement of proposed levels of service, potential increased costs from delays, Council not meeting agreed consent conditions, and increases the risk of assets failing before they can be replaced leading to a disruption.

The level of capital projects forecast will be challenging to deliver.

Likelihood of Risk Occurrence

Probable

Financial Impacts

Medium

Cost increases due to delay or deferring capital projects, interest rate increases and borrowing forecasts, along with debt servicing costs being different than planned. If additional resources are required to plan, project manage and deliver capital projects, rates requirements would rise.

Risk Mitigation Factors

Council has been purposely raising the level of project management sophistication and rigor in the organisation over the last four years to deliver the major increases in capital expenditure this Long Term Plan includes. These are mainly:

Established a project management office (PMO) and introduced standardised project processes and framework. Using a standardised framework has provided much needed guidance for those projects that are not directly led by the PMO, but by other departments within the organisation,

Robust scoping and cost estimation are being completed for capital projects in Years 1–3 of the Long Term Plan, resulting in full and complete project concepts and briefs,

Procurement strategy is in place in the Alliance, while a Procurement Policy applies across the organisation,

Council works collaboratively with supply partners, has longer term contracts, building capacity and capability with local contractors and providing certainly of contracts so supply partners can commit to investments in training, development, and equipment.

If the projects do fall behind the schedule contained in the Long Term Plan, Council has the ability to revise the speed of delivery in future annual plans and alter rating, development contributions, and borrowing assumptions at that time. Any money already collected can be carried forward to a later year to be used at the point of construction.

Appendix 1

Taituarā / BERL Price Adjustors October 2023

The following tables are extracted from the 'Cost Adjustors Final Update' - BERL – October 2023 report prepared for Taituarā. Council has chosen to adopt this scenario – considered by BERL to be a likely outcome relevant to most regions of New Zealand.

Table 7 Local Government Cost Adjuster, pa % changes

	Pa % changes				
Year	Planning & regulation	Roading	Transport	Community	Waste
2015	0.8	1.1	1.0	1.0	1.8
2016	0.7	1.6	1.1	2.1	2.2
2017	2.2	2.8	2.4	2.3	2.7
2018	2.0	1.3	1.7	1.7	1.1
2019	3.0	3.5	3.1	2.4	2.9
2020	1.2	1.1	1.2	1.5	1.6
2021	2.3	1.9	2.1	1.6	1.2
2022	6.9	7.6	7.0	6.5	5.9
2023	4.9	4.8	4.9	4.3	5.0
2024	3.2	3.8	3.4	3.5	3.7
2025	2.4	2.9	2.6	2.7	3.0
2026	2.1	2.0	2.1	2.0	2.1
2027	2.2	2.3	2.2	2.2	2.3
2028	2.1	2.3	2.2	2.2	2.4
2029	2.0	2.2	2.1	2.1	2.3
2030	1.9	2.1	2.0	2.0	2.2
2031	1.9	2.0	2.0	1.9	2.2
2032	1.8	2.0	1.9	1.9	2.1
2033	1.8	2.0	1.9	1.9	2.1
2034	1.8	1.9	1.9	1.8	2.0
20 year average % pa	*2.3*	*2.6*	*2.4*	*2.4*	*2.5*